



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-3873
PHONE: (213) 974-8301 FAX: (213) 626-5427

WENDY L. WATANABE
AUDITOR-CONTROLLER

MARIA M. OMS
CHIEF DEPUTY

ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS
JOHN NAIMO
JUDI E. THOMAS

March 24, 2010

TO: Supervisor Gloria Molina, Chair
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **HUB CITIES CONSORTIUM CONTRACT REVIEW – A COMMUNITY
AND SENIOR SERVICES WORKFORCE INVESTMENT ACT
PROGRAM PROVIDER – FISCAL YEAR 2008-09**

We completed a program, fiscal and administrative contract compliance review of Hub Cities Consortium (Hub Cities or Agency), a Community and Senior Services (CSS) Workforce Investment Act (WIA) Program provider.

Background

CSS contracts with Hub Cities to provide and operate the WIA Adult, Dislocated Worker, Rapid Response and Youth Programs. The WIA Adult and Dislocated Worker Programs assist individuals in obtaining employment, retaining their jobs and increasing their earnings. The WIA Rapid Response Program provides assistance to companies that are facing a reduction in their workforce and assists the soon-to-be dislocated workers in career transitions by providing orientation seminars, workshops and materials. The WIA Youth Program is a comprehensive training and employment program for in-school and out-of-school youth ages 14 - 21 years old. Hub Cities serves participants residing in the First and Second Districts.

Hub Cities was compensated on a cost reimbursement basis and had a contract for \$3,431,798 for Fiscal Year (FY) 2008-09.

Purpose/Methodology

The purpose of our review was to determine whether Hub Cities complied with its contract terms and appropriately accounted for and spent WIA funds in providing the services outlined in their County contract. We interviewed Agency staff and evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State and County guidelines.

Results of Review

Hub Cities billed CSS \$104,910 in questioned costs. Specifically, Hub Cities:

- Billed CSS \$63,922 (\$44,722 + \$19,200) for unallowable expenditures related to the New Mexico College Prep Program.
- Billed CSS \$36,616 in July 2008 using an inappropriate allocation methodology. Specifically, Hub Cities billed CSS shared program expenditures based on a ratio of participants serviced within each program to total participants served.
- Billed CSS \$3,449 (\$2729 + \$720) for non-program related expenditures.
- Incorrectly charged the WIA Dislocated Worker Program \$493 for expenditures related to the WIA Adult Program.
- Billed CSS \$430 in travel expenditures in excess of the County's allowable lodging rates.

In addition, Hub Cities did not always comply with WIA and County contract requirements. For example, Hub Cities did not:

- Obtain criminal record clearances, including fingerprinting, for all ten employees sampled as required by Part II, Section 27.4 of the County contract.
- Allocate shared program expenditures in accordance with Office of Management and Budget (OMB) A-87, the Auditor-Controller Contract Accounting and Administration Handbook or the Agency's Cost Allocation Plan.
- Obtain prior written authorization from CSS to subcontract program services with two subcontractors as required by Part II, Section 66.1 of the County contract. According to the subcontractors' agreements, Hub Cities agreed to pay one subcontractor up to \$100,000 and the other subcontractor up to \$75,000.
- Meet all their FY 2008-09 third quarter planned performance outcomes for the WIA Youth and Adult Programs.

- Update the participants' program activities on the Job Training Automation (JTA) System within 12 days following the reporting period for three (20%) of the 15 participants sampled as required by WIA Directive LACOD-WIAD08-20. We also noted an additional 24 participants whose enrollments were not reported on the JTA System as required. Subsequent to our review, Hub Cities accurately updated the participants' program activities into the JTA System for the 27 participants.

Similar findings were noted during the prior years' monitoring reviews.

Details of our review, along with recommendations for corrective action, are attached.

Review of Report

We discussed our report with Hub Cities and CSS on October 29, 2009. In their attached response, Hub Cities agreed with some of our findings and recommendations including repaying \$3,879 (\$2,729 + \$430 + \$720) in questioned costs. However, Hub Cities indicated that while they discontinued billing CSS for the New Mexico College Prep Program, they will exercise their right to appeal the Auditor-Controller's recommendation to repay CSS \$63,922 for the College Prep Program. In addition, CSS indicated that they will work with Hub Cities to resolve the remaining \$37,109 (\$36,616 + \$493) in questioned cost.

We thank Hub Cities for their cooperation and assistance during this review. Please call me if you have any questions, or your staff may contact Don Chadwick at (213) 253-0301.

WLW:MMO:JET:DC:EB

Attachment

- c: William T Fujioka, Chief Executive Officer
Cynthia D. Banks, Director, Community and Senior Services
Alberto Uribe, Executive Director, Hub Cities Consortium
David Silva, Chairperson, Hub Cities Consortium
Public Information Office
Audit Committee

**WORKFORCE INVESTMENT ACT PROGRAM
HUB CITIES CONSORTIUM
FISCAL YEAR 2008-09**

ELIGIBILITY

Objective

Determine whether Hub Cities Consortium (Hub Cities or Agency) provided services to individuals that meet the eligibility requirements of the Workforce Investment Act (WIA) Programs.

Verification

We reviewed the case files for 40 (7%) (15 youths, 15 adults and 10 dislocated workers) of the 577 participants that received services from July 2008 through May 2009 for documentation to confirm their eligibility for WIA services.

Results

Hub Cities maintained appropriate documentation to support the eligibility of the 40 participants sampled.

Recommendation

None.

BILLED SERVICES/CLIENT VERIFICATION

Objective

Determine whether the Agency provided the services in accordance with the County contract and WIA guidelines. In addition, determine whether the participants received the billed services.

Verification

We reviewed the documentation contained in the case files for 40 (7%) participants that received services from July 2008 through May 2009.

Results

Youth Program

Hub Cities did not report the program activities for three (20%) of the 15 participants sampled on the Job Training Automation (JTA) System within 12 days following the

reporting period as required by WIA Directive LACOD-WIAD08-20. In addition, Hub Cities did not report the enrollments for an additional 24 participants on the JTA System as required. The State of California Employment Development Department (EDD) and the Department of Labor use the JTA System to track WIA participant activities. A similar finding was also noted during the prior year's monitoring review.

Subsequent to our review, Hub Cities accurately updated the participants' program activities into the JTA System for the 27 participants.

Adult and Dislocated Worker Programs

Generally, Hub Cities provided the services in accordance with the County contract and WIA guidelines for the WIA Adult and Dislocated Worker Programs.

Recommendation

1. **Hub Cities management ensure that staff update the JTA System within 12 days following the reporting period to accurately reflect the participants' program activities.**

PERFORMANCE OUTCOME REVIEW

Objective

Determine whether the Agency met the planned performance outcomes as outlined in the County contract. The performance outcomes included measuring the number of participants that enrolled in the program, exited the program, completed training and/or gained employment.

Verification

We compared the Agency's Fiscal Year (FY) 2008-09 actual performance outcomes for the third quarter to the planned performance outcomes outlined in the County contract.

Results

Hub Cities met all the FY 2008-09 third quarter planned performance outcomes as outlined in the County contract for the WIA Dislocated Worker Program. However, Hub Cities did not meet all the FY 2008-09 third quarter planned performance outcomes for the WIA Youth and Adult Programs. Specifically:

FY 2008-09 3RD QUARTER PERFORMANCE OUTCOMES												
WIA Programs	Enrollments			Trained			Exits			Placements		
	Planned	Actual	% Enrolled	Planned	Actual	% Trained	Planned	Actual	% Exited	Planned	Actual	% Placed
Adult	98	58	59.2%	MET PLANNED PERFORMANCE OUTCOMES			129	73	56.6%	101	52	51.5%
Youth	213	106	49.8%	MET PLANNED PERFORMANCE OUTCOMES			205	19	9.3%	135	8	5.9%

A similar finding was also noted during the prior year's monitoring review.

Recommendation

2. Hub Cities management ensure that the planned performance outcomes are met as required by the County contract.

CASH/REVENUE

Objective

Determine whether cash receipts and revenues are properly recorded in the Agency's records and deposited timely in their bank account. In addition, determine whether there are adequate controls over cash, petty cash and other liquid assets.

Verification

We interviewed Agency personnel and reviewed financial records. We also reviewed the Agency's bank activity for February, March and April 2009.

Results

Hub Cities maintained adequate controls to ensure that revenue was properly deposited in a timely manner. However, Hub Cities did not maintain a check remittance log as required by Part B, Section 1.2 of the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook).

Subsequent to our review, Hub Cities developed a check remittance log in order to properly record cash receipts.

Recommendation

3. Hub Cities management ensure the check remittance log is maintained as required.

COST ALLOCATION PLAN

Objective

Determine whether Hub Cities' Cost Allocation Plan was prepared in compliance with the County contract and the Agency used the Plan to appropriately allocate shared program expenditures.

Verification

We reviewed the Cost Allocation Plan and reviewed a sample of expenditures incurred by the Agency in July 2008, November 2008, February 2009 and April 2009 to ensure that the expenditures were properly allocated to the Agency's programs.

Results

Hub Cities' method of allocating shared program expenditures did not comply with Attachment A, Section F.1 and Attachment C, Section A.1 of Office of Management and Budget (OMB) A-87, Part C, Section 2.0 of the A-C Handbook or the Agency's own Cost Allocation Plan. Specifically, Hub Cities' allocated their July 2008 shared expenditures based on a ratio of participants serviced within each program to total participants served. However, this approach did not allocate shared expenditures based on the benefits each program received from the expenditures. For example, a program that did not incur any activity during a month would not be allocated shared expenditures even though the program's administrative staff were paid and were assigned office space. A similar finding was also noted in the prior two years' monitoring reviews.

Recommendations

Hub Cities management:

- 4. Use a methodology that more accurately allocates costs to the programs that benefited from the expenditures.**
- 5. Review and reallocate the July 2008 and any subsequent months' shared program expenditures based on an acceptable allocation methodology and repay Community and Senior Services (CSS) for any overbilled amounts.**

EXPENDITURES/PROCUREMENT

Objective

Determine whether program related expenditures are allowable under the County contract, properly documented and accurately billed.

Verification

We interviewed Agency personnel, reviewed financial records and reviewed documentation for 101 non-payroll expenditure transactions billed by the Agency for July 2008, November 2008, February 2009 and April 2009, totaling \$171,908.

Results

Hub Cities billed \$84,990 in questioned costs during FY 2008-09. Specifically, Hub Cities:

- Billed CSS \$36,616 in July 2008 using an inappropriate allocation methodology. Specifically, Hub Cities billed CSS shared program expenditures based on a ratio of participants serviced within each program to total participants served. Similar findings were also noted during the prior two years' monitoring reviews.
- Billed CSS \$44,722 during FY 2008-09 for expenditures related to the New Mexico College Prep Program. CSS notified Hub Cities in the prior fiscal year that expenditures related to the New Mexico College Prep Program would be disallowed.
- Billed CSS for non-WIA related expenditures. Specifically, Hub Cities billed CSS for 100% of the security and telephone expenditures even though non-WIA programs also occupied space and used facility services. The amount billed totaled \$2,729. A similar finding was also noted during the prior years' monitoring reviews.
- Inappropriately charged the WIA Dislocated Worker Program \$493 for expenditures incurred for the WIA Adult Program.
- Billed CSS \$430 in travel expenditures in excess of the County's allowable lodging rates. According to Part A, Section 3.2 of the A-C Handbook, "maximum reimbursable lodging amount is the maximum County's reimbursement rate for employees for a single occupancy hotel accommodation." A similar finding was also noted during the prior year's monitoring review.

Recommendations**Hub Cities management:**

6. **Repay CSS \$84,990.**
7. **Maintain adequate documentation to support program expenditures.**
8. **Ensure that shared program expenditures are appropriately allocated and in compliance with the County contract and WIA guidelines.**

9. Discontinue billing CSS for the New Mexico College Prep Program and all related expenditures.
10. Request reimbursement for allowable WIA related expenditures.
11. Ensure that expenditures are charged to the appropriate program.
12. Ensure that billed travel expenditures do not exceed the County's maximum reimbursement rates.

ADMINISTRATIVE CONTROLS/CONTRACT COMPLIANCE

Objective

Determine whether the Agency maintained sufficient internal controls over its business operations. In addition, determine whether the Agency is in compliance with other Program and administrative requirements.

Verification

We interviewed Agency personnel, reviewed their policies and procedures manuals, conducted an on-site visit and tested transactions in various non-cash areas such as expenditures, payroll and personnel.

Results

Hub Cities maintained sufficient internal controls over its business operations. However, Hub Cities did not always comply with WIA and County contract requirements. Specifically:

- Hub Cities did not obtain prior written authorization from CSS to subcontract program services with two subcontractors as required by Part II, Section 66.1 of the County contract. At the time of our review, the subcontractors had not invoiced the Agency for their services. However, both subcontractors provided program services to WIA participants during the program year. According to the subcontractors' agreements, Hub Cities agreed to pay one subcontractor up to \$100,000 and the other subcontractor up to \$75,000.
- Hub Cities did not have a record retention policy in compliance with the County contract. Specifically, the Agency's record retention policy is three years, however, Section 62.2 of the County contract requires records to be kept for at least five years.
- Hub Cities' personnel policies and procedures manual did not include a policy on Child/Elder Abuse Prevention Reporting as required by Part II, Section 9.1 of the County contract. A similar finding was also noted during the prior years' monitoring reviews.

Subsequent to our review, Hub Cities provided an updated record retention policy and a Child/Elder Abuse Prevention Reporting policy.

Recommendations

Hub Cities management:

- 13. Obtain written authorization from CSS for the subcontractors used, or repay CSS for the amounts subsequently billed for subcontractors' expenditures.**
- 14. Ensure the updated record retention policy and the Child/Elder Abuse Prevention Reporting policy are distributed to staff and ensure compliance.**
- 15. Ensure the Agency's personnel policies and procedures manual includes a policy on Child/Elder Abuse Prevention Reporting.**

FIXED ASSETS AND EQUIPMENT

Objective

Determine whether Hub Cities' fixed assets and equipment purchases made with WIA funds are used for the WIA Programs and are safeguarded.

Verification

We interviewed Agency personnel and reviewed the Agency's fixed assets and equipment inventory listing. In addition, we performed an inventory and reviewed the usage of 15 items purchased with WIA funds, totaling \$42,325.

Results

Generally, Hub Cities used the equipment purchased with WIA funds for the WIA Programs and the assets were safeguarded. However, Hub Cities' equipment inventory listing was not in compliance with Attachment XVI of the County contract. Specifically:

- Hub Cities did not specifically identify the name of the individual the items were assigned to for 260 (93%) of the 281 items as required.
- Hub Cities did not specifically identify the office or room number of the property location for all 281 (100%) items as required.

Subsequent to our review, Hub Cities provided an updated equipment inventory listing, including office or room numbers for all the items. However, the updated listing still did

not specifically identify the name of the individual the items were assigned to for 251 (89%) of the 281 items as required.

Recommendation

- 16. Hub Cities management ensure that the Agency's equipment inventory listing is complete and contains all the required information.**

PAYROLL AND PERSONNEL

Objective

Determine whether payroll expenditures were appropriately charged to the WIA Programs. In addition, determine whether the Agency obtained criminal record clearances, verified employability, and maintained current driver's licenses and proof of automobile insurances for the employees assigned to the WIA Programs.

Verification

We traced the payroll expenditures invoiced for 30 employees and 129 participants totaling \$186,897 for July 2008, August 2008 and February 2009 to the Agency's payroll records and time reports. We also interviewed one staff and reviewed the personnel files for ten employees assigned to the WIA Programs.

Results

Hub Cities billed \$19,920 in questioned payroll costs. Specifically, Hub Cities:

- Billed CSS \$19,200 in participant wages related to the New Mexico College Prep Program. As previously noted, CSS informed Hub Cities in the prior fiscal year that expenditures related to the New Mexico College Prep Program are not allowable.
- Billed CSS \$720 in participant wages paid to an individual not enrolled in the WIA Program.

Hub Cities also did not obtain criminal record clearances, including fingerprinting, for all ten employees sampled as required by Part II, Section 27.4 of the County contract.

Recommendations

Hub Cities management:

Refer to Recommendations 9 and 10.

- 17. Repay CSS \$19,920 (\$19,200 + \$720).**

18. Ensure that criminal record clearances, including fingerprinting, are obtained for all employees.

CLOSE-OUT REVIEW

Objective

Determine whether the Agency's FY 2007-08 final close-out invoices for the WIA Adult, Dislocated Worker, Rapid Response and Youth Programs reconciled to the Agency's financial accounting records.

Verification

We traced Hub Cities' FY 2007-08 general ledgers to the Agency's final close-out invoices for FY 2007-08.

Results

Hub Cities' FY 2007-08 general ledgers reconciled to the Agency's final close-out invoices.

Recommendation

None.



November 24, 2009

Alberto Uribe
Executive Director

Board of Directors:

David Silva
Chairman

Sergio Calderon

Mario Gomez

Henry Gonzalez

Maria Santillan

Wendy L. Watanabe, Auditor-Controller
Department of Auditor-Controller
Countywide Contract Monitoring Division
350 S. Figueroa Street, 8th Floor
Los Angeles, CA 90071
Attention: Yoon Bae

Re: Hub Cities Consortium Contract Review dated November xx, 2009 for fiscal year 2008-2009.

Serving residents of:

Cudahy

Huntington Park

Lynwood

Maywood

South Gate

Dear Ms. Watanabe:

This letter, along with its attachments, constitutes the response of the Hub Cities Consortium ("Hub Cities") to your draft letter dated November xx 2009 regarding the program, fiscal and administrative contract review of Hub Cities. The draft report will "Report."

Our response is organized to provide a response to each of the findings.

Recommendation #1

With Recommendation #1, Hub Cities will ensure that staff updates the JTA system within 12 days following the reporting period to accurately reflect the participant's program activities by monitoring the participant's activities for all services. Sr. CSR and management will ensure that participant's enrollment activities are reported within 3 days of the activity start day. Throughout the participant's enrollment the Sr. CSR will create a "task Reminder" using the M.S. Outlook Calendar or Prime Works Plus to ensure the timely process in tracking of completion of activities thus triggering the submission of MIS documents within a timely manner. Upon review of file content, the Sr. CSR will submit MIS forms to Department Manager for review no later than 20th day of the month. Upon reviewing and signing off on the MIS Transmittal form the Department Manager will be responsible for transferring completed MIS to the MIS Department no later than the 25th day of each month.

Recommendation #2

Hub Cities agrees with Finding 2 and is working towards ensuring that the planned performance outcomes for the WIA Youth Program are met as required by the County contract. As of November 20, 2009, CSS had not released the final performance outcomes for FY 2008-09. However, the draft final performance 2008-09 outcomes indicate that Hub Cities met or exceeded 100% of all performance for fiscal year 2008-09.



HUB CITIES CONSORTIUM A Public Entity

2677 Zane Avenue Second Floor • Huntington Park, CA 90255 • PHONE 323.586.4700 • FAX 323.586.4702

Wendy L. Watanabe
May 22, 2009
Page 2

Recommendation #3

Hub Cities agrees with finding 3. We have implemented a check remittance log as required by Part B, Section 1.2 of the Auditor-Controller Handbook. A copy of the log was presented to the Auditor-Controller at the exit conference.

Recommendation #4, 5, 6, 7 and 8

Hub Cities agrees with Findings 4 thru 8. Hub Cities has revised its cost allocation methodology and has re-allocated the shared program expenditures for the months of July and August 2009. A new direct wage basis methodology was implemented in September 2009. The reallocation of cost for July and August of 2009 was completed and posted in the Fiscal Year in question. A copy of the new Cost Allocation methodology, G/L's and supporting payroll reports were presented to the Auditor-Controller at the exit conference.

Recommendation # 9

Hub Cities has discontinued billing CSS for the New Mexico College Prep Program. We will exercise our right to appeal the decision questioning the cost of the College Prep Program, as per CD-09-01 and CD-09-02.

Recommendation # 10

Hub Cities agrees with finding #10. Hub Cities will repay CSS \$2,729.

Recommendation # 11

Hub Cities agrees with finding #11. Subsequent to Auditors Controllers exit conference Hub Cities reversed the coding error and charged the correct program. A copy of the journal entry and G/L was presented to the Auditor-Controller at the exit conference.

Recommendation # 12

Hub Cities agrees with finding #12. Hub Cities has updated the travel and per diem policy to reflect the County's allowable rate. HCC agrees to repay the \$430.

Recommendation # 13

HCC will obtain written authorization from CSS on subcontractors used. This will be implemented immediately.

Wendy L. Watanabe
May 22, 2009
Page 3

Recommendation # 14 & 15

Hub Cities agrees with finding #14 & 15. Hub Cities has implemented and updated policy on Record Retention and Child Abuse Prevention. A copy was provided to the A-C team during the exit conference held October 29, 2009.

Recommendation # 16

Hub Cities will ensure that the equipment inventory listing is complete and contains all the required information. This will be implemented immediately.

Recommendation # 17

Hub Cities agrees partially with finding #17. Hub Cities will repay CSS \$720 in participant wages paid to one non-WIA participant.

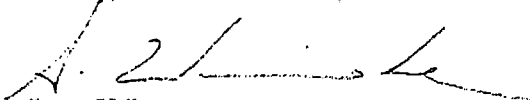
As noted in the response to item #9, Hub Cities will appeal the CSS decision disallowing costs to the New Mexico College Prep Program.

Recommendation # 18

Hub Cities has been in the process of obtaining the necessary information from the State of California concerning criminal record clearances for all employees. Due to staff changes at the State, the process was dropped. HCC has re-engaged the State of California in the process with a new State representative.

If you have any questions concerning this response, please do not hesitate to contact me at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read 'A. Uribe', with a long horizontal stroke extending to the right.

Alberto Uribe
Executive Director